

PROXY TAX CHECKSHEET

Background

Section 6033(e)(1) of the Code imposes reporting and notice requirements on certain tax-exempt organizations described in sections 501(c)(4), (5) and (6) that incur nondeductible lobbying and political expenditures. Nondeductible lobbying and political expenditures are described in section 162(e). They include expenditures paid or incurred in connection with (1) influencing legislation; (2) participation in, or intervention in, any political campaign on behalf of (or in opposition to) any candidate for public office; (3) any attempt to influence the general public with respect to elections, legislative matters or referendums; or (4) any direct communication with a covered executive branch official in an attempt to influence the official actions or positions of that official.

Organizations that do not provide the required notices of amounts of membership dues allocable to nondeductible lobbying expenditures are subject to income tax (commonly called a "proxy tax") under section 6033(e)(2) on such expenditures. The tax is reported on Form 990-T, *Exempt Organization Business Income Tax Return (and proxy tax under section 6033(e))* at line 37. Information about how to compute the tax is in the *Instructions for Form 990-T*.

Application

Revenue Procedure 98-19, 1998-1 C.B. 30, provides that section 6033(e) applies to the following organizations:

- Social welfare organizations described in section 501(c)(4) that are not veterans' organizations.
- Agricultural and horticultural organizations described in section 501(c)(5) [Note: Section 6033(e) does not apply to labor organizations.]
- Organizations described in section 501(c)(6).

Rev. Proc. 98-19 also provides that section 6033(e) **does not** apply to:

- Organizations whose total in-house lobbying expenditures do not exceed \$2,000.
- Organizations that receive either (1) more than 90 percent of all annual dues from members of less than \$75 per member, or (2) more than 90 percent of all annual dues from section 501(c)(3) organizations, state or local governmental entities, or entities whose income is exempt from tax under section 115. **NOTE:** The \$75 amount will be increased for years after 1998 by a cost-of-living adjustment under IRC 1(f)(3), rounded to the next highest dollar. Rev. Proc. 98-19, § 5.05

Questions

1. Was the organization aware of the reporting and notice and proxy tax requirements of section 6033(e) of the Code?
Yes ___ No ___

If the answer to Question #1 is "No", complete Question #2. If the answer to Question #1 is "Yes", skip ahead to Question #3.

2. What were the reasons given by the officers for lack of awareness?
- a. ___ Unaware of law pertaining to section 6033(e)
 - b. ___ Aware of law but confused about proper application
 - c. ___ Relied on tax professional
 - d. ___ Other
3. Were expenditures made for non-deductible lobbying and political expenditures as described in section 6033(e)?
Yes ___ No ___

If the answer to Question #3 is "No", STOP.

4. Is the organization excepted from the reporting and notice requirement?
Yes ___ No ___

**If the answer to Question #4 is "Yes", complete Question #5.
If the answer to Question #4 is "No", skip ahead to Question #6.**

5. What exception applies?
- a. ___ Substantially all dues received by the organization are not otherwise deductible to the member.
 - b. ___ Total in-house lobbying expenditures do not exceed \$2,000.
 - c. ___ More than 90 percent of all annual dues are from members of less than \$75 per member (as adjusted). See **NOTE** under **Application**, above.
 - d. ___ More than 90 percent of all annual dues are from charities, governmental entities or entities whose income is exempt from tax under section 115.
6. Did the organization notify its dues paying members of the allocable portion of their membership dues that is not tax-deductible?
Yes ___ No ___

If "No", proceed to the next question

7. Did the organization pay the proxy tax on amounts of lobbying and political expenditures?
Yes ___ No ___

If "No", take appropriate action to bring the organization into compliance.